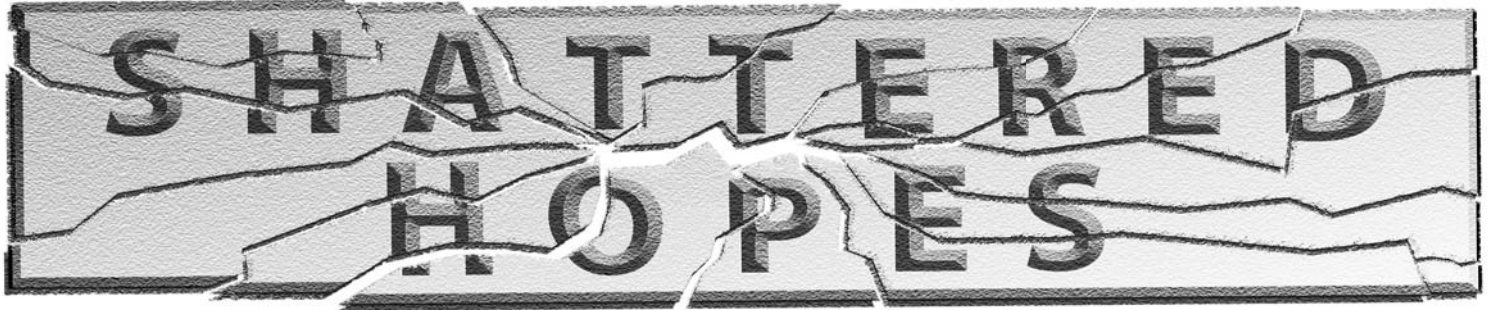


The PERAC Financial Bulletin

Financial Market Review, Second Quarter 2008



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Investors began the second quarter with hopes that the worst of the credit crisis was over, but after a month and a half of moderately rising stock prices, these hopes were shattered in mid-May as the equity market began a precipitous decline to bear market territory. With oil prices pressing inexorably higher to new record highs, with inflation becoming an increasing concern, and with consumer spending under rising pressure, major equity indexes were off nearly 20% from their recent peaks of last October.

For the quarter, small and midcap stocks held up better than large caps and growth performed better than value, but the major carnage continued to be in the already battered financial sector. While the S&P 500 Index was off 2.73% for the quarter and 11.91% for the year, the financial sector of the Index was off 19.01% for the quarter and 30.89% for the year to date. In sharp contrast, S&P's energy sector was up 3.88% for the

quarter and 8.12% for the first six months of 2008. Among bellweather financial stocks, Lehman Brothers stock fell 47% (down 70% year-to-date) to its lowest level in eight years.

Neither international markets, many facing similar economic storms as the US, nor emerging markets, many suffering corrections after huge runups last year, have offered any significant diversification benefits against the US market declines this year. After declining for the past six years, the dollar was relatively stable during the quarter.

Developments in the bond market mirrored those in the stock market. For much of the quarter, yield spreads between Treasury securities and riskier bonds narrowed as investors became more comfortable with risk, but this trend began to reverse late in the quarter as fear began to re-emerge. Even though the Fed cut the federal funds rate in April for the seventh time this cycle (it kept them unchanged at its June meeting),

the yield on the two-year Treasury note increased from 1.6% to 2.63% and the yield on the ten-year note rose from 3.43% to 3.97%. Despite some narrowing during the quarter, the yield spread between high yield and Treasury bonds remained very wide at 7.4% percentage points. After little change during the second quarter, investment grade bonds were up 1.1% year-to-date while high yield bonds were down 1.2%.

The credit crisis finally began to affect the capital-dependent real estate industry as REITs underperformed the stock market during the second quarter although still outperforming it year-to-date. Returns also appeared to be falling on private real estate. Performance data on private equity/real estate is lagged by several months; the IPO market remained weak. Composite returns on hedge funds of funds are expected to show returns flat to slightly negative for the year, disappointing in absolute returns but better than stock market performance.

Public Employee Retirement Administration Commission Five Middlesex Avenue, Third Floor, Somerville, MA 02145
Phone 617 666 4446 Fax 617 628 4002 TTY 617 591 8917 Web www.mass.gov/perac

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S&P 500: A Five Year Perspective

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TOTAL RETURNS | SECOND QUARTER, 2008

INDEX	SECOND QUARTER 2008	FIRST SIX MONTHS 2008
US EQUITY MARKET		
Dow Jones Industrial Avg.	- 6.9%	- 13.4%
Standard & Poor's 500 (Large Cap)	- 2.73%	- 11.91%
NASDAQ Composite	+0.6%	- 13.6%
Wilshire 5000 (Broad Market)	- 1.55%	- 10.92%
Standard & Poor's Mid-Cap 400	+5.07%	- 4.57%
Russell 2000 (Small Cap.)	+0.58%	- 9.37%
GROWTH VS. VALUE		
Russell 1000 (Large Cap) Growth	+1.25%	- 9.06%
Russell 1000 (Large Cap) Value	- 5.31%	- 13.57%
Russell Midcap Growth	+4.65%	- 6.81%
Russell Midcap Value	+0.07%	- 8.58%
Russell 2000 Growth	+4.47%	- 8.93%
Russell 2000 Value	- 3.55%	- 9.84%
INTERNATIONAL EQUITY		
M.S.C.I. - E.A.F.E.	-2.25%	- 10.96%
M.S.C.I. - Emerging Markets	-0.86%	-11.76%
FIXED INCOME		
Lehman Brothers Aggregate Index	-1.0%	+ 1.13%
Merrill Lynch High Yield Index	+1.80%	- 1.24%
REAL ESTATE		
NAREIT - Equity Real Estate Investment Trusts	-4.60%	- 3.26%
NCREIF Property Index	+1.60% (Q1)	NA